

United States Senate Committee on Finance

Statement of Senator Chuck Grassley
Senate Committee on Finance Hearing
Tax Incentives for Business in Response to a Minimum Wage Increase
Wednesday, January 10, 2007

This hearing touches on two topics. The first one is the proposed increase in the Federal minimum wage. The second topic is tax incentives to assist workers and businesses burdened by the increased Federal minimum wage. I'll address the minimum wage first. Popular support for raising the minimum wage is based on a number of widely held beliefs. First, no one can support a family on \$5.15 an hour. Second, minimum wage earners won't get a pay raise unless Congress gives them one. Third, raising the minimum wage helps millions of poor workers and hurts no one. Unfortunately, these popular beliefs are either misleading or wrong. First, most minimum wage earners are not trying to support a family. Those who are can receive substantial government benefits to supplement their income. Thus, no one has to rely solely on the minimum wage to support a family. Second, minimum wage jobs are generally entry-level jobs. Most workers who start at the minimum wage quickly earn more. Few workers remain stuck at the minimum wage for very long. Unfortunately, those who do are most at risk of losing their job from a minimum wage increase. Third, most minimum wage earners are not poor. Only 15 percent of the proposed minimum wage increase would go to those living below the poverty level. Increasing the minimum wage would result in higher prices for consumers of minimum wage products, higher unemployment among the least skilled minimum wage earners, increased poverty among minimum wage families, or some combination thereof.

Much of the popular support for the minimum wage is based on a fallacy that the government can help the poor without hurting anyone. But, if the government can increase wages with no ill effects, why stop at \$7.25 an hour as currently proposed, why not \$10.25, or \$20.25, or even more? Popular support for increasing the minimum wage is tempered by the fact that virtually everyone agrees there is some level at which the minimum wage would produce obvious negative effects. In the past, policymakers have attempted to mitigate any negative effects by limiting the size of the minimum wage increase; providing tax credits to employers who hire "at risk" workers; and providing tax or regulatory relief to business.

However, additional research in recent years has cast some doubt on the effectiveness of these previous efforts. First, this research suggests raising the minimum wage does not reduce poverty among minimum wage earners. Instead, it most likely increases poverty. Second, legislative action by various states to adopt their own higher minimum wage has led to significant differences among the states. Finally, research shows the Earned Income Credit could provide a cost effective way to help the poorest workers. I'm pleased that, over the last few years we've enhanced the Earned Income Credit for many families by making the child tax credit refundable.

Despite the serious policy concerns, public support for increasing the minimum wage remains strong. The purpose of today's hearing is to review the pros and cons of raising the minimum wage and determine what steps Congress should take to mitigate the negative impact of raising the minimum wage. I ask unanimous consent to insert into the record some additional background material on the impact of a minimum wage increase.

Let's move to the second topic. Tax incentives targeted to small businesses and other businesses impacted by a minimum wage increase have been linked to minimum wage legislation by Republicans for over a decade. Democrats have, at times, joined Republicans in supporting this linkage. I'd like to quote from two former chairmen of this committee in their opening remarks on

the conference agreement on the last piece of legislation that raised the minimum wage.

Senator Roth, then the chairman of the committee, described taxes as the sand that grinds the gears of small business. So, he saw merit in small business tax relief. Senator Roth went on to say: “[We will] proceed to the legislation on the minimum wage and small business taxes. We’re anxious to move ahead on the small business tax legislation.”

Senator Moynihan said, “My distinguished chairman, as always, has so stated the facts. But there is a small semantic issue here. Some call this the small business relief act; others on this side call it the minimum wage bill. But we will not resolve that tonight, nor need we.”

Senator Roth and Moynihan were right then. If still living today, I’d tell them they were right now. To different groups of Senators these topics carry their own benefits or burdens. Many on my side don’t like the idea of second guessing the labor market with a federally mandated minimum wage. I’ve pointed out some of the related issues that should give us all pause when considering such legislation.

Many on the Democratic side want a straight minimum wage hike and refuse to consider the burden that policy puts on employers and workers. Those members do not want any linkage between the minimum wage policy and small business tax relief. As Senator Moynihan said, however, we don’t have to agree now whether the upcoming legislation will be a minimum wage bill or a small business tax relief bill.

Some, mostly Democrats, will call it a minimum wage bill. Some, mostly Republicans, will call it a small business tax relief bill. Still other members will call it both a minimum wage and small business tax relief bill. President Bush, like President Clinton did years ago, will recognize both parts of the package. I ask unanimous consent to insert in the record President Clinton’s signing statement on the last minimum wage/small business tax relief package. I also ask unanimous consent to insert in the record the closing remarks of Senators Roth and Moynihan on the same piece of legislation. The bottom line is there is a well-known set of small business tax relief measures. We will examine them in this hearing. I look forward to moving these proposals along in the committee and floor process.

On a final note, the Senate is not officially organized. When that organization occurs, the four new committee members will become official committee members and my friend, Senator Baucus, will become Chairman. At this point, I prefer that we recognize the substance of the elections of two months ago, instead of dwelling on formalities. In that light, I congratulate Senator Baucus on his new chairmanship and look forward to continuing our productive, bipartisan, hard-working tradition. In addition, I welcome Senator Roberts on my side. Senator Roberts is assuming the “Kansas seat” that Senator Dole held for many years. Senator Roberts will bring a lot of good one-liners just like Senator Dole did. I look forward to those one-liners. I also welcome, on the Democratic side, Senators Stabenow, Cantwell, and Salazar.